

A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Compliance Review

Riverside Elementary School District No. 2

Year Ended June 30, 2007



Debra K. Davenport
Auditor General

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

February 19, 2009

Governing Board
Riverside Elementary School District No. 2
1414 South 51st Avenue
Phoenix, AZ 85043-8016

Members of the Board:

We have reviewed the District's audit reports and Uniform System of Financial Records (USFR) Compliance Questionnaire for the year ended June 30, 2007, prepared by Cronstrom, Osuch & Co., P.C. to determine whether the District substantially complied with the USFR.

As a result of our review, we noted significant deficiencies in internal controls that indicate the District had not complied with the USFR. District management should implement the recommendations we have described in this report within 90 days after the date of this letter. We have communicated specific details for all deficiencies to management for correction.

During the 90-day period, the District may request a meeting to discuss these recommendations with my Office and the Arizona Department of Education by calling Magdalene Haggerty, Accounting Services Director, or Jerry Strom, Accounting Services Manager.

A member of my staff will call the Superintendent/Business Manager in several weeks to discuss the District's action to implement these recommendations. After the 90-day period, my staff will schedule an on-site review of the District's internal controls to determine whether the District is in substantial compliance with the USFR. Our review will cover the deficiencies we have communicated to management as well as any other internal control deficiencies we are aware of at the time of our review.

Sincerely,

Debra K. Davenport
Auditor General

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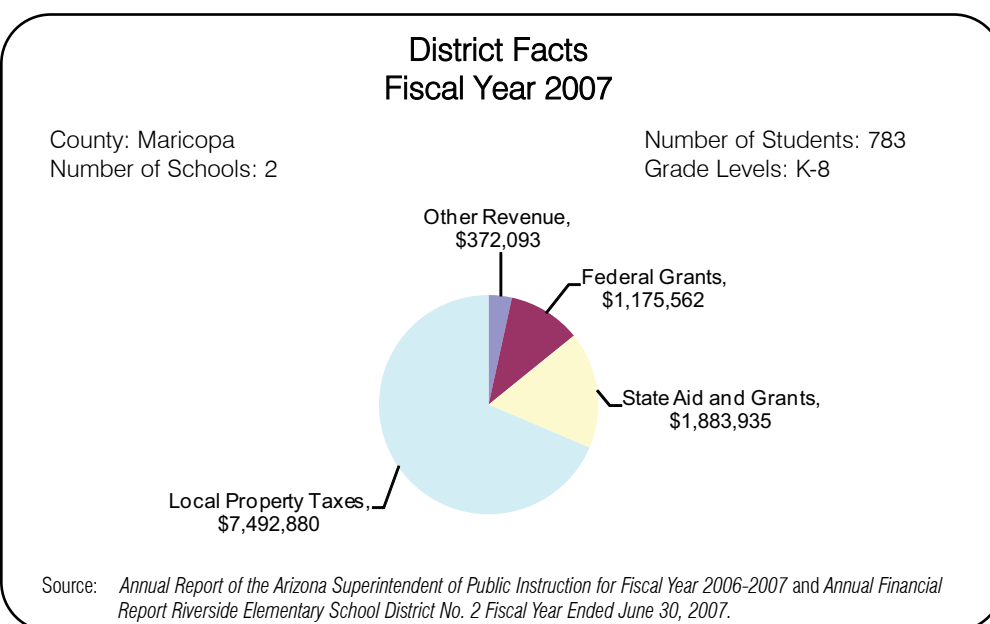
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INTRODUCTION

Riverside Elementary School District No. 2 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$10.9 million it received in fiscal year (FY) 2007 to provide this education.

The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our review of the District's audit reports and USFR Compliance Questionnaire for the year ended June 30, 2007, we determined that the District had failed to comply with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and to comply with the USFR. Our recommendations are described on the following pages.



FINDING 1

The District's controls over competitive purchasing and expenditures should be strengthened

The District entered into a \$1 million lease purchase agreement without the Governing Board's approval.

School District Procurement Rules for competitive sealed bidding and USFR guidelines for purchases below the sealed bid threshold promote open and fair competition among vendors. This helps ensure that districts receive the best possible value for the public monies they spend. However, the District did not always follow the School District Procurement Rules or the USFR guidelines. Specifically, the District did not issue an invitation for bids or request for proposals for a purchase that exceeded the competitive sealed bid threshold. In addition, the District did not always obtain oral and written price quotations for purchases that required them. Also, the District entered into a \$1 million lease purchase agreement without Governing Board approval and without following the School District Procurement Rules.

Further, the District spends public monies to purchase goods and services, so it is essential that its expenditures are appropriate, approved in advance, and adequately supported. However, the District's budgeted expenditures in the Maintenance and Operation (M&O) Fund exceeded the fund's general budget limit by approximately \$47,000, and actual expenditures exceeded its budget limit by over \$300,000. In addition, the District did not retain credit card receipts and did not always prepare purchase orders before ordering goods and services. Also, the District did not calculate depreciation expense for each of its depreciable assets. Finally, the District did not always retain supporting documentation for travel reimbursements.

Recommendations

To help strengthen controls over competitive purchasing and expenditures the District should:

- Issue invitations for bids or requests for proposals for purchases of construction, materials, or services that individually or in the aggregate exceed \$33,689.
- Obtain oral price quotations from at least three vendors for purchases estimated to cost between \$5,000 and \$15,000, and written price quotations for purchases estimated to cost between \$15,000 and \$33,689. If the District cannot obtain three price quotations, it should document the vendors contacted and their reasons for not providing quotations. Also, if a vendor is selected for reasons other than lowest price, the reasons should be fully documented and retained.

School District Procurement Rules provide the requirements for competitive sealed bids for the purchase of goods and services in excess of \$33,689.

- Submit each expenditure voucher, along with supporting documentation, to the Governing Board for approval.
- Ensure its proposed, adopted, and revised expenditure budgets do not exceed the applicable budget limits. Also, the District should ensure that sufficient budget capacity is available in budget-controlled funds before authorizing expenditures from those funds.
- Retain documentation to support all credit card transactions. Credit card receipts and other supporting documentation should be compared to the applicable billing statement for propriety before payment is made.
- Prepare and approve purchase orders for all district expenditures, except exempted items, before ordering goods and services.
- Calculate depreciation expense for each depreciable asset and record the expense in the accounting records in the function for which the asset is used.
- Maintain supporting documentation for all expenditures, including travel reimbursements, such as, receipts, invoices, and conference brochures.

USFR pages VI-G-7 and 8 provide guidance on the proper use of district credit cards.

FINDING 2

The District should improve accountability over its Classroom Site Fund monies

The District used Classroom Site Fund monies to pay salaries that had previously been paid with M&O Fund monies instead of supplementing monies previously used for salaries.

The Classroom Site Fund, administered by ADE, was established in fiscal year 2002 to account for the portion of state sales tax collections provided to school districts as an additional source of funding for teacher salary increases and other specified maintenance and operation purposes. Districts must correctly allocate, separately account for, and spend Classroom Site Fund (CSF) monies in accordance with Arizona Revised Statutes (A.R.S.). However, the District did not properly allocate CSF revenues among the three required funds. In addition, the District used CSF monies to supplant existing monies by paying three teachers' salaries from CSF monies instead of using M&O monies as had been done in the previous year.

Recommendations

The District must monitor and ensure that CSF monies are allocated and spent in accordance with A.R.S. §15-977. Specifically, the District should prepare and retain documentation to support that CSF monies are allocated to the required CSF special revenue funds in accordance with statute. In addition, the District should ensure that CSF monies are used to supplement rather than supplant existing monies from all other sources. Further, the District must reimburse all CSF monies used to supplant non-CSF monies in any fiscal year and contact ADE for guidance on revising the AFR and/or budget for this adjustment.

Guidance for the CSF is provided in USFR Memorandum Nos. 194 and 234.

FINDING 3

The District's controls over payroll processing should be strengthened

Salaries, wages, and related payroll costs are a major portion of the District's total expenditures. Therefore, it is critical for the District to have strong payroll controls to ensure that employees are paid accurately. However, the District did not have adequate procedures in place for payroll processing. Specifically, the District inappropriately paid all administrative employees, district office employees, and bus drivers when the District was closed for vacation and holidays without requiring them to use accrued leave time. In addition, the District did not consistently maintain employee timecards. Finally, employee tax withholdings did not always agree to the applicable federal and state withholding allowance certificates.

The District inappropriately paid numerous employees for hours not worked during periods school was not in session.

Recommendations

To help strengthen controls over payroll, the District should implement the following procedures:

- Pay employees for actual hours worked or leave hours used. The District should prepare and maintain annual leave summaries, or other similar forms, to record leave time earned or used by each employee. In addition, the District should correct the applicable employees' leave balances by deducting leave time for wages paid during periods school was not in session; however, if the employees' leave balances are insufficient, the District should seek reimbursement from those employees.
- Approve employee leave in advance, in writing, and verify leave balances prior to approval.
- Require hourly employees to prepare time cards for each pay period. Time cards should be properly completed and signed by the employee and the employee's supervisor to indicate approval.
- Calculate and withhold the correct amounts from employees' pay based on current federal and state withholding allowance certificates (W-4 and A-4 forms).

FINDING 4

The District should ensure the accuracy of its student attendance records

The District may not have received the appropriate amount of funding because it did not report membership and absences correctly.

The State of Arizona provides funding to school districts based on membership and attendance. In turn, the State requires school districts to maintain accurate attendance records to ensure that districts receive the appropriate amount of state aid and local property taxes. However, membership and absence information recorded in the District's computerized attendance system did not agree to the amount reported to ADE. In addition, the District did not always calculate absences for kindergarten students correctly. Finally, student counts reported on the District's budget worksheets did not agree to ADE's ADMS 46-1 report.

Recommendations

To help ensure that the District receives the correct amount of state and local funding, the District should:

- Ensure that membership and absences recorded in its computerized attendance system agree to ADE's records. The District should review ADE's reports for differences and resolve any discrepancies promptly.
- Record kindergarten students, with total instruction time between 346 and 692 hours per year, as absent if in attendance for less than three-quarters of the day. If the instructional time for the year is 692 hours or more, students not in attendance at least one-half of the day should be counted as being absent. Half-day absences are not reported for kindergarten students.
- Obtain student counts for its expenditure budget work sheets from ADE's Recalculated ADM State Aid Report (ADMS 46-1).

FINDING 5

The District's controls over cash and bank accounts should be improved

The District receives cash from various sources, including student activities, and maintains bank accounts to deposit the related receipts. Because of the relatively high risk associated with cash transactions, the District should maintain effective internal controls to safeguard cash and ensure that it is promptly deposited. However, the District did not meet these objectives. For example, the District maintained one bank account not authorized by A.R.S. and did not close an inactive bank account. In addition, the District did not deposit all student activities monies in a timely manner. Further, the District did not always maintain documentation to support disbursements from the student activities bank account.

The District maintained an unauthorized bank account.

Recommendations

To help strengthen controls over its bank accounts, the District should:

- Maintain only those bank accounts prescribed by A.R.S. and ensure that all bank accounts are approved by the Governing Board.
- Close all inactive and unauthorized bank accounts.
- Deposit student activities cash receipts daily, if significant, or at least weekly.
- Prepare and retain documentation to support disbursements from the student activities bank account.

FINDING 6

The District should maintain and report accurate financial information

The District's Governing Board depends on accurate information to fulfill its oversight responsibility. The District should also report accurate information to the public and agencies from which it receives funding. To achieve this objective, the District must have strong internal controls to ensure the reliability of its accounting records. However, the District did not fully accomplish this objective. Specifically, budgeted expenditures reported on the District's AFR did not agree with its revised expenditure budget, and actual revenues and expenditures for several funds did not agree with the District's accounting records.

Recommendations

To help ensure the accuracy of its financial information, the District should update its accounting records for all revenues, expenditures, and necessary adjustments before preparing the AFR. Also, the District should verify that budgeted and actual expenditures included on the AFR agree with the most recently revised expenditure budget, and that revenues and expenditures also agree with its accounting records. The District should assign a second employee to review and verify that the amounts reported on the AFR are accurate before submitting it to ADE.